



BIPARTISAN POLICY CENTER

**Written Testimony
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Subcommittee on Terrorism, Nonproliferation, and Trade
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Chairman Poe, Ranking Member Keating, and members of the subcommittee, thank you for inviting me to testify today on the question of whether to lift restrictions on U.S. crude oil exports. I am the president of the Bipartisan Policy Center (BPC), which I founded in 2007 with former Senate Majority Leaders Howard Baker, Tom Daschle, Bob Dole, and George Mitchell. BPC is a Washington-based think tank develops and advocates for pragmatic, politically viable solutions to some of the nation's most complex challenges. BPC has ongoing projects in energy, national and homeland security, health care, immigration, economic opportunity and the federal budget.

My testimony today will address several core ideas:

- 1) The current restrictions on exporting crude oil are an anachronism. Forged in a bygone era of vulnerability, this policy is now inhibiting our ability to capitalize on America's energy strength.
- 2) Lifting these market barriers will strengthen our domestic economy and protect consumers. While gasoline prices are influenced by a myriad of factors, adding a reliable supply of crude oil to the global market will exert downward pressure on prices and protect US consumers from global supply disruptions.
- 3) The export ban is a form of resource nationalism that undermines our nation's fundamental commitment to efficient markets and our ability to promote free and fair trade.
- 4) By keeping US resources and market power on the sidelines, the ban empowers our adversaries to use energy as a weapon and diminishes our ability to pursue a myriad of policy and security interests.
- 5) Congress should move to lift these restrictions in a deliberate manner that is cognizant of the impact on those refiners that have come to rely on lower domestic crude prices.

- 6) We must all continue to explore the implications of this policy change and our remarkable energy abundance on a host of other complex policies from the Strategic Petroleum Reserve to the Jones Act to the Renewable Fuels Standard.

- 7) Of late many energy related issues have become subsumed as proxies in the critical and unfortunately polarized debate over climate change. The Bipartisan Policy Center believes that additional action is necessary to effectively address climate change. However, perpetuating inefficient markets through trade restrictions in hopes of somehow reducing global reliance on fossil fuels is not an effective climate change strategy and if anything will result in increased global emissions. Moreover, Congress in the coming months must engage in serious debates over an array of related issues from expanded oil and gas development on the OCS to ensuring safe and environmentally responsible drilling practices to reducing fugitive methane emissions to the siting of critical oil and gas infrastructure and the safety of oil transport by rail, to name a few. Lifting the oil export ban is of significant importance to our economy and must be decided on its own merits.

Overview

BPC believes that Congress and the Administration should take further steps to lift restrictions on U.S. crude oil exports. These restrictions are outdated market barriers that, left unaddressed, will undermine domestic production and our economic recovery. While the political debate will inevitably come down assertions about price of a gallon of gasoline, this issue is fundamentally a commercial dispute between oil producers who will benefit from selling their product in a competitive global market and refiners who rely on lower domestic crude oil prices (relative to international prices) to maintain profitably.

In general, lifting the ban will increase U.S. production. While no one can confidently predict the price impact of adding 1-2% of additional crude to the global market, the basic dynamics of supply and demand should give us all high confidence that increasing supply will ultimately lower the costs of crude and gasoline, and more importantly reduce the vulnerability of the global market to disruptions leading to price spikes. From a foreign policy and international security vantage point, erasing this protectionist policy sends a clear signal in favor of free trade and demonstrates that the United States is doing our part to strengthen global energy markets. By contributing to the pool of global spare capacity, we strengthen our leverage to restrain Iran's nuclear ambitions and diminish the ability of others who seek to manipulate energy supplies for their own geopolitical gain.

U.S. Oil Production – A new Reality

Two weeks ago, the U.S. Energy Information Administration (EIA) announced that the growth in U.S. crude oil production in 2014 was the highest in more than 100 years. Production increased by 1.2 million barrels per day compared to 2013—a percentage increase of over 16 percent—with most of the additional production coming from tight oil plays in North Dakota, Texas and

New Mexico. Domestic crude oil production has increased every year since 2009, after roughly two decades of declining production.¹ With domestic petroleum production having increased over 35 percent since 2009, the United States now accounts for approximately 14 percent of the total global oil supply, and is once again the largest producer of petroleum liquid fuels in the world.^{2,3}

Just a few years ago, the United States was resigned to an inexorable decline in domestic oil production and increasing dependence of foreign sources of supply. The past several years have brought about a dramatic reversal. Horizontal drilling and hydraulic fracturing technologies have been applied not only to natural gas production from shale, but also to crude oil production from shale formations. The results have been surprising and spectacular. Domestic oil production has increased sharply and, most analysts believe, will continue to do so. Over the remainder of this decade, the United States is projected to increase its domestic crude oil production from 8.7 million barrels per day in 2014⁴ to 9.55 million barrels per day in 2020⁵—a level not seen since 1970.⁶

At the same time, changing demographics and consumer preferences in the United States, along with ambitious new fuel economy standards and investments in energy efficiency, has led to flattening domestic demand for petroleum products. From 1983 to 2005, U.S. petroleum consumption grew by more than 35 percent, peaking at 20.8 million barrels per day in 2005.⁷ From 2005 to 2014, however, the United States reduced its petroleum consumption by over 8 percent, to 19.0 million barrels per day.⁸ EIA estimates that U.S. petroleum consumption will remain below 20 million barrels per day through the year 2040.⁹

In 2013, the BPC's Strategic Energy Policy Initiative issued a major [report](#) that declared unequivocally: "The state of U.S. domestic energy sectors, energy productivity, and energy security is the best it has been in many decades." This statement is even truer today than it was two years ago. It is time to embrace America's energy abundance and lift the 40-year old ban on U.S. crude oil exports.

The Mismatch between U.S. Crude Oil Production and Refining Capacity

Over the past several decades, U.S. refiners have invested tens of billions of dollars increasing capacity to refine heavier, high-sulfur "sour" crudes like those imported from Saudi Arabia, Canada, Mexico, and Venezuela. The recent increase in U.S. oil production primarily consists of light sweet crude. In response, Imports of light sweet crude to the Gulf Coast have fallen to almost zero, while light sweet crude imports to East Coast refiners have fallen by over 70 percent since 2010.¹⁰ At current rates of production, domestic production of light sweet crude will outstrip our current domestic refining capacity.

Last week, EIA released a new report outlining possible approaches for processing the increased domestic production. The report examines a range of options, such as expanding domestic refinery capacity to process light sweet crude oil, or blending of additional light sweet crude and heavier oil. However, there are trade-offs with all of these approaches. Options that

require little capital investment are limited and could result in operational inefficiencies at refineries. Options requiring major capital investments face a range of market risks. It is important to emphasize that lifting the export ban does not obligate anyone to export domestically produced crude. Our goal should be to enable the market to determine the optimal increase in domestic refining capacity and export. The current uncertainty in U.S. policy directions precludes critical infrastructure investment undermining producers, refiners and consumers alike.

Economic Impacts of Lifting the Crude Oil Export Ban

A key question for policymakers and voters is whether lifting restrictions on crude oil exports, will meaningfully affect domestic gasoline prices. In short, the answer is no. While one cannot eliminate the possibility of minor, localized price impacts while the markets recalibrate, the price of U.S. gasoline is driven by the global price of oil and elimination of the export ban will exert downward pressure on the global oil price.

It is understandable that some assume that refiners receiving below-market crude oil will “pass on” these savings to consumers. However, this is not how competitive markets function. Refiners appropriately seek the highest price for their product capturing any “windfall” from lower feedstock costs for shareholders. The U. S. has long been an exporter of refined petroleum products. As noted above, exports of refined petroleum products are not restricted under the Export Administration Regulations. Since 2001, exports of refined petroleum products, including gasoline, have increased dramatically, rising by over 300 percent.¹¹ Because gasoline and other refined products are traded internationally, prices in the United States for these refined products reflect international crude and refined product prices, not domestic crude oil prices. As EIA noted in its October 2014 report, “Gasoline is a globally traded commodity and, as a result, prices and changes in prices are highly correlated across global spot markets.”¹²

Over the past year, a number of studies—including analyses from IHS and Columbia University—have attempted to quantify the potential economic impacts of lifting the crude oil export ban. These studies point to the possibility that without an international market for domestic crude oil, prices may be depressed to the point where upstream investment and production will be curtailed. In contrast, economic fundamentals, as described in the EIA report, point to a number of potential benefits of lifting the ban.

For instance, IHS found that over the period 2016-2030, U.S. crude oil production would be increased somewhere between 1.2 and 2.3 million barrels per day, compared to a scenario where exports are not allowed. With open exports, U.S. gasoline prices would fall 8-12 cents per gallon during this time.¹³ The Columbia University study found similar results for the 2015-2025 period: lifting the ban would increase U.S. crude oil production by 0-1.2 million barrels per day and would decrease U.S. gasoline prices by 0-12 cents per gallon.¹⁴

The greater economic benefit from lifting the export ban is likely to come in the form of avoided harm. Until recently, the U.S. and global economies were highly vulnerable to a global oil disruption. Whether caused by accident or intentional malice, the loss of just a few percent of global production would send prices skyrocketing and the anticipation of this possibility or “risk premium” was a force in driving gasoline over \$4/gallon. Increased U.S. production in recent years has contributed to a far more resilient global market place that is reflected in lower global prices. Lifting the export ban will further encourage this dynamic. As Adam Sieminski, Administrator for the Energy Information Administration, noted at a 2013 BPC event, “Two million barrels a day more production in the U.S. means, in a sense, two million barrels a day more spare capacity around the world and EIA has shown ... that there is a very direct relationship between spare capacity and prices. And higher global spare capacity is almost always associated with lower and more stable pricing.”

Geopolitical Impacts of Lifting the Crude Oil Export Ban

U.S. policy, both foreign and domestic, has operated under an assumption of energy scarcity for the past three decades. Today, the rules of U.S. diplomacy are being rewritten for a future less dependent on foreign oil, with significant implications for the country’s strategic posture and relationships with trading partners and allies alike.

On the broad issue of trade policy, the U.S. has righteously decried the “resource nationalism” and “protectionism” that have long hindered global energy markets. Until recently, our four-decade ban on oil exports was a quaint policy aberration. While hypocritical in theory, it had no material impact as no one imagined the U.S. would ever have substantial excess capacity to trade in the global market. Happily, times have changed. A decision by Congress to perpetuate this exception now that it matters would undermine U.S. credibility in challenging trade restrictions and promoting open markets.

Increased U.S. supplies, combined with growing international production and the potential transfer of new extraction technologies, are already having ramifications for the Organization of Petroleum Exporting Countries (OPEC). Over time, it has become increasingly difficult for OPEC to make cohesive, strategic decisions, in part because its members have differing goals and needs. Many OPEC nations rely heavily on oil revenues to support their governments and to keep their populations satisfied, while others are unable to meet their production targets due to political, technical, or geological realities. Declining oil prices over the past several months have exacerbated differences among OPEC members, and numerous energy market analysts and economists, including Alan Greenspan, believe that OPEC has “lost its clout” as a result of the marked increase in U.S. oil production. Without question, OPEC’s declining influence allows more flexibility for the United States to pursue its foreign policy goals. And allowing U.S. exports into the market decreases the sway of other global oil exporters including Russia, Venezuela, and Iran.

Increased supplies of U.S. oil have helped to balance international oil markets in the face of substantial unrest in oil producing regions, and have also enabled the successful

implementation of Iranian sanctions without creating additional market instabilities. Absent spare capacity in the global oil market, any action that creates a supply disruption can have a devastating effect on the U.S. and global economy. In a “no-margin” environment, those who wish to do the U.S. harm are empowered. Moreover, our ability to pursue critical national interests are inhibited if the U.S. economy and economic interests of our allies are highly vulnerable to reductions in global supply.

While it is impossible to precisely delineate the prospective foreign policy benefits of the U.S. energy abundance, it is not exaggerated to assert that our ability to fortify the global oil market neutralizes a myriad of potential threats while increasing our options and strengthening our hand across the globe.

The Path Forward

Over the past decade, technology innovations have unlocked a vast domestic energy resource. In combination with great strides in efficiency, our energy future is now defined by strength, abundance and opportunity. However, our ability to secure the promise of abundance is being hindered by a framework that was designed for a much bleaker reality. Our nation has repaired a number of these provisions. We repealed the Fuel Use Act, adopted at around the same time as the export ban, which precluded the use of natural gas in power plants. We recently reassessed our approach to exports of liquefied natural gas (LNG) arriving at the right spot of expedited export approvals after serious debate and analysis. It is now time to align the framework governing oil exports with current economic, technological and geopolitical realities.

As Congress considers lifting the export restrictions, it must also grapple with the implications of our remarkable energy abundance on a host of related policies from the Strategic Petroleum Reserve to the Jones Act to the Renewable Fuels Standard. All are affected by the dramatic changes in domestic energy production and all will benefit from reexamination in the coming years. Of late many energy related issues have become subsumed as proxies in the critical and unfortunately polarized debate over climate change. The Bipartisan Policy Center believes that additional action is necessary to effectively address climate change. However, perpetuating inefficient markets through trade restrictions in hopes of somehow reducing global reliance on fossil fuels is not an effective climate change strategy and if anything will result in increased global emissions. In the coming months, Congress must also engage in serious debates over an array of related issues from expanded oil and gas development on the Outer Continental Shelf to ensuring safe and environmentally responsible drilling practices to reducing fugitive methane emissions to the siting of critical oil and gas infrastructure and the safety of oil transport by rail to name a few. However, lifting the oil export ban is of significant importance to our economy and must be decided on its own merits.

In closing, while BPC believes that the benefits of lifting the export ban greatly outweigh the costs, there are costs, particularly to a small number of domestic refineries that may not be able to sustain current operations in a fully competitive marketplace. We hope that Congress

will be receptive to suggestions that minimize these disruptions during the necessary transition to a more competitive and efficient market.

¹ U.S. Energy Information Administration, “U.S. oil production growth in 2014 was largest in more than 100 years,” *Today in Energy*, March 30, 2015. Available at: <http://www.eia.gov/todayinenergy/detail.cfm?id=20572>.

² In 2013 (the most recent year for which EIA presents international data), the U.S. oil supply—including crude oil, lease condensate, natural gas plant liquids, other liquids, and refinery processing gain—was about 12.34 million barrels per day out of a total 90.88 million barrels per day for the world. See: U.S. Energy Information Administration, *International Energy Statistics*. Available at: <http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=53&aid=1&cid=ww,US,&syid=2009&eyid=2013&unit=TBDP>.

³ U.S. Energy Information Administration, “U.S. remained world's largest producer of petroleum and natural gas hydrocarbons in 2014,” *Today in Energy*, April 7, 2015. Available at: <http://www.eia.gov/todayinenergy/detail.cfm?id=20692>.

⁴ U.S. Energy Information Administration, “Crude Oil Production,” March 30, 2015. Available at: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldpd_a.htm.

⁵ U.S. Energy Information Administration, “Table A11. Petroleum and other liquids supply and disposition,” *Annual Energy Outlook 2014*. Available at: <http://www.eia.gov/forecasts/aeo/pdf/tbla11.pdf>.

⁶ U.S. Energy Information Administration, “Crude Oil Production,” March 30, 2015. Available at: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldpd_a.htm.

⁷ U.S. Energy Information Administration, “Table 5.1a. Petroleum and Other Liquids Overview, Selected Years, 1949-2011,” *Annual Energy Review 2011*, September 27, 2012. Available at: http://www.eia.gov/totalenergy/data/annual/pdf/sec5_6.pdf.

⁸ U.S. Energy Information Administration, “Table 3.1 Petroleum Overview,” *Monthly Energy Review*, March 26, 2015. Available at: http://www.eia.gov/totalenergy/data/monthly/pdf/sec3_3.pdf.

⁹ U.S. Energy Information Administration, “Table A11. Petroleum and other liquids supply and disposition,” *Annual Energy Outlook 2014*. Available at: <http://www.eia.gov/forecasts/aeo/pdf/tbla11.pdf>.

¹⁰ U.S. Energy Information Administration, *Crude Import Tracking Tool*. Available at: http://www.eia.gov/beta/petroleum/imports/browser/#/?vs=PET_IMPORTS.WORLD-US-ALL.A.

¹¹ U.S. Energy Information Administration, “Exports by Destination,” March 30, 2015. Available at: http://www.eia.gov/dnav/pet/pet_move_expc_a_EPPO_EEX_mbbldpd_a.htm.

¹² U.S. Energy Information Administration, *What Drives U.S. Gasoline Prices?*, October 2014. Available at: <http://www.eia.gov/analysis/studies/gasoline/pdf/gasolinepricestudy.pdf>.

¹³ IHS, *US Crude Oil Export Decision: Assessing the impact of the export ban and free trade on the US economy*, May 2014. Available at: <https://www.ihs.com/Info/0514/crude-oil.html>.

¹⁴ Jason Bordoff and Trevor Houser, *Navigating the U.S. Oil Export Debate*, January 2015. Available at: <http://energypolicy.columbia.edu/sites/default/files/energy/Navigating%20the%20US%20Oil%20Export%20Debate%20January%202015.pdf>.